SUPPORT TO MICRO, SMALL AND MEDIUM ENTERPRISES IN ORGANIC CLUSTERS PROJECT(OCP)

Combined Progress Report for period (October 1, 2013 – March 31, 2014)

Submitted to:
African Development Bank, Egypt Field Office

By:
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List of Acronyms

AfDB	African Development Bank Group
BDS	Business Development Services
G8	Group of Eight representing governments of largest economies in the world
GoE	Government of Egypt
MENA	Middle East and North Africa region
MSMEs	Micro, Small and Medium Enterprises
SFD	Social Fund for Development
SME	Small and Medium Enterprises
UNIDO	United Nations Industrial Development Agency
USD	United States of America Dollar

1 PROJECT BACKGROUND

Following the onset of the Arab Spring in early 2011, the G8 launched the Deauville Partnership to support countries of the Middle East and North Africa (MENA) in their transition towards democracy. Within the framework of Deauville, the MENA Transitional Fund was established as a broad-based technical assistance program to finance country-owned projects that aim at introducing reforms at the governance, social and economic levels. As an eligible recipient, the Government of Egypt (GoE) represented by the Social Fund For Development (SFD) in partnership with the African Development Bank (AfDB), agreed to implement a project to create an overall enabling environment for Micro, Small, and Medium Enterprises (MSMEs) operating out of organic clusters to increase their contribution towards economic growth and employment. The outcome of this project will feed into the larger policy framework for MSMEs which is currently being developed under the leadership of the SFD. The project is planned for three years (2013-2016), and has commenced implementation as of September 29, 2013.

1.1 Project results, performance indicators and targets

The following table summarizes project results, performance indicators and targets. The project is in process of developing a revised Performance Measurement Framework (PMF) for submission to the AfDB.

Results	**Cumulative Target**		
	YR 1	**YR 2**	**YR3**
Project Development Objective (PDO): Create an overall enabling environment for Micro, Small, and Medium Enterprises (MSMEs) operating out of organic clusters and increase their contribution towards economic growth and employment.			
PDO Level Results Indicators			
Indicator One: Regulation and laws adopted by government related to integration of organic cluster in the development plans			Policy option developed
Indicator Two: Decrease in uunemployment rate	12.8	12.6	12.4
Intermediate Results			
Intermediate Result (Component One): Policy recommendations towards an enabling environment for the development of MSMEs in organic clusters			
***Indicator 1.1*:** Policy framework for organic cluster development drafted and advocated			1
***Indicator 1.2*:** Studies supporting cluster's policy decision making conducted	1	3	
Intermediate Result (Component Two): Institutional capacity built for key support institutions and stakeholders working with organic MSME clusters			
***Indicator 2.1*:** Number of stakeholders trainees	10	30	50
***Indicator2.2*:** number of institutions participated in study tours and roundtables	2	2	
Intermediate Result (Component Three): MSME contribution to manufacturing value added increased in pilot project			
Indicator 3.1: % increase in contribution of organic MSMEs to manufacturing value-added in	0	10%	50%

identified cluster (gender disaggregated)			
Indicator 3.2: % increase in demand for financial and non-financial services tailored to develop MSMEs in cluster (gender disaggregated)	0	10%	50%

1.2 Basic information related to the Grant:

- Grant Number : G-EG-AAG-ZZZ-001
- Grant Amount: USD 2,000,000 (incl. Project Indirect Costs "ISA" for USD 60,000) - Total disbursements to the Project will not exceed USD 1,940,000.
- Grant Approval Date: February 29, 2013
- Date of Grant Signature: May 29, 2013
- Grant Entry Into Force: : September 29, 2013
- Closing Date: June 30, 2016
- Special Account no. 2590300600 opened in Commercial International Bank (CIB) on September 22, 2013.
- Ceiling of 1st Tranche Disbursement: Up to 25%
- 1st Tranche Disbursement: USD 397,700 on February 6, 2014

2 PROJECT IMPLEMENTATION STATUS

This section presents the immediate results achieved during the reporting period. Reporting is made along the components, sub-components and activities as outlined in the Project Proposal and Procurement Plan (PP) until a Performance Measurement Framework (PMF) for the project is developed and approved.

2.1 Supervision Missions Conducted:

Two Supervisory Missions were conducted:

- Launching Mission, on September 29, 2013
- 1st Supervision Mission, on March 30-31, 2014

During the first Supervision Mission; Procurement Plan was reviewed. The project team plan to finalize and submit revised Procurement Plan to the AfDB for final clearance by April 3, 2014.

2.2 Component 1: Policy recommendations towards an enabling environment for the development of MSMEs in organic clusters.

Sub-components and activities are:

- **Sub-Component 1.1:** 1. Mapping of Organic clusters and reviewing and analyzing existing national programs supporting them:
  - Mapping of Organic clusters for Upper Egypt
  - Compiling research on Best-Practices
  - Potential Growth Assessment of 3 selected Organic Clusters and value chain analysis
  - Multi-stakeholder dissemination workshops

- **Sub-Component 1.2:** Development of Policy Briefs:
- Policy proposals for organic cluster improvement
- Draft policy recommendations for inclusion in national strategy
- Establishment of support information systems, such as portal

Progress and Achievements:

"Mapping of Organic Clusters" - Line Item #1 in the project's PP

- Terms of Reference (ToR) and expected Level of Effort (LoE) developed and finalized for formal submission to Bank by April 20, 2014. Expression of Interest (EoI) prepared for final submission to Bank on May 25, 2014.

"Compiling research on Best-Practices" - Line Item #2 in the project's PP

- SFD and the UNIDO agreed that UNIDO will share with SFD a compendium/collection of the case studies that UNIDO has on past UNIDO cluster development projects around the globe. Anticipated to be submitted to SFD on June 15, 2014.
- SFD will outsource an individual consultant to conduct the international best practices study. The UNIDO will nominate consultants to do this assignment. The ToR for compiling research on organic clusters best practices is currently underway and first draft expected to be finalized by June 19, 2014.

2.3 Component 2: Institutional and operational capacity building for key support institutions and stakeholders working with organic MSME clusters.

Component activities are:

- In-depth stakeholder analysis of support institutions
- Creation of a basic BDS service provider's database
- Workshops and round table discussions to raise awareness of the stakeholders
- Workshops and round table discussions to raise awareness of the stakeholders
- Build capacities of stakeholders, towards improved cluster identification and management
- Study Tour on Clusters To India, Feb. 20-22, 2014
- Study Tour
- Study Tour (2 tours for maximum of 6 persons from at least 3 stakeholders each)
- Feasibility Study on the Establishment of Defined Cluster Self-Governance and Management System
- Identify a sustainable cluster management methodology/system
- Conduct a feasibility study for organic cluster management.

Progress and Achievements:

Study Tour to India - Line Item #11.a in the project's PP

- A Study Tour to India was organized to participate in the “Changing Paradigms of Cluster Development - Learning from Global Experience" conference in New Delhi (February 20-22, 2014). Three staff members from the SFD participated in this conference. Participants acquired considerable knowledge on international experience with regards to the stages of the cluster development approach adopted in India and other countries, sustainable development in clusters development and, other related topics. The knowledge acquired during the conference enabled project team to prepare the Terms of Reference for one of the major assignments in the project, namely "Mapping of Organic Clusters in Egypt". As a result of the conference, several areas of potential cooperation with other prominent international organizations working in cluster development were identified. For example, UNIDO, and the Centre for South-South Industrial Cooperation (UNIDO CSSIC-India). The SFD participants have also compiled a report summarizing the outcome of the conference and new ideas/knowledge acquired. The report was circulated to other SFD staff members concerned with MSME and cluster development.
- Disbursements: USD 3,312

“Build capacities of stakeholders, towards improved cluster identification and management” - Line Item #10 in the project’s PP

Meetings were held, and several emails were exchanged, with UNIDO leading to agreement regarding specific areas of collaboration, as follows:

- Conduct a training program for staff of the SDF, development banks and other implementing agencies at the national level. UNIDO and SFD have a mutual understanding of the topics to be covered, the number of training days (5 days) and, the training program outline.
- On-going capacity development and local institutional strengthening in cluster development to SFD and other stakeholders: .UNIDO proposes to provide the SFD with on-going support and mentoring over an 18-month period. This support will include: (a) Conduct Training Workshop(s) as needed (for 6 days max). Specific topics will be determined following the selection of the specific clusters to be targeted.
  (b) Coaching/Technical Assistance/Distant Support to be provided by UNIDO professionals during implementation (around 14 days; specific number of days to be determined based UNIDO’s fees structure/ financial proposal and available project budget).
- UNIDO and the SFD agreed to have one contract covering both phases of collaboration.
- **Challenge**: However, the suggestion to use Trust Fund Agreement (TFA) as a contract template was not approved by the AfDB. Instead, the AfDB proposed using the Bank’s Consultant Contract Template. The issue of the contracting format to be used has not be resolved yet.

2.4 Component 3: Increase organic MSME contribution to manufacturing value added (pilot project). Component activities are:

- In-depth diagnostic study of the specific cluster - Pre Mapping
- In-depth diagnostic study of the specific cluster - Post Mapping
- Cluster stakeholder consultations

- Tailored business development services to MSMEs in organic clusters - Pre Mapping
- Tailored business development services to MSMEs in organic clusters
- Development of specific loan product for the identified cluster

Progress and Achievements:

"Tailored business development services to MSMEs in organic clusters - Pre Mapping" - Line Item #15.a in the project's PP

- During the first Supervisory Mission, alternatives to address delay in project implementation were discussed and an agreement was reached that a "Pre-mapping Initiative" would be launched; whereby SFD, in consultation with the Bank, will select an organic cluster, conduct a rapid assessment of cluster's needs of business development services. Following that, responsive tailored BDS will be provided to MSMEs in the selected organic cluster.
- Preparatory steps were made to launch an internal mapping of organic clusters in specific governorates. This mapping exercise will be done though SFD regional offices. Draft forms were prepared to collect information on organic clusters in various governorates. The actual implementation of the internal mapping will commence following the cluster development training to be delivered by UNIDO to SFD staff. In case UNIDO contractual agreement is delayed, an orientation session on cluster development will be organized by SFD in-house expertise to speed up pre-mapping implementation process.

2.5 Component 4: Project management

Under this component, all activities related to project management will be addressed. These include: recruitment of a project manager and a coordination/ M& E expert; purchasing equipment; conducting annual external audits; conducting a project completion report; fielding supervision missions; and other overhead expenses.

Progress Achieved:

"Recruitment of Project Manager" - Line item #17 in the project's PP

- The TOR was cleared and approved by the AfDB and the project manager was recruited and assumed his job on February 15, 2014.

"Recruitment of Coordinator/M&E Expert" - Line Item #19 in the project's PP

- The ToR for a part-time M&E Expert has been cleared and approved by the AfDB, and the recruitment process was initiaated during the reporting period. Expected to be on-board by April 15, 2014.

"Recruitment of Project Officer" - Line Item #18 in the project's PP

- The ToR for Project Officer has been prepared and AfDB approval is underway. Recruitment expected to be initiated on April 27, 2014.

Other

- Procuremet training was conducted by AfDB for SFD staff concerned with Project implementation, on September 29, 2013.
- Procurement of project goods (laptops, printers, and scanner) is underway. Request for no objection to be submitted to AfDB On April 9, 2014.

3 DISBURSEMENT

- The SFD has opened a special USD account for the grant (account number: 2590300600 at Commercial International Bank - CIB) on September 22, 2013.
- First disbursement request, for a total amount of USD 397,700 was submitted to the AfDB on December 1,2013 and disbursed to the SFD with value-date February 5, 2014.

4. CHALLENGES

"Build capacities of stakeholders, towards improved cluster identification and management" - Line Item #10 in the project's PP

- UNIDO is not accepting the Bank's standard Consultant Contract Template to conduct cluster development training workshop and provide coaching and technical assistance. The Bank is currently exploring options to address this matter including using a contract template formerly used to contract other UN organizations.

"Tailored business development services to MSMEs in organic clusters - Pre Mapping" - Line Item #15.a in the project's PP

- Selection of a specific organic cluster to work in before obtaining mapping assignment results is a challenge.
- The diagnosis of MSME needs in the selected cluster and the design/ delivery of BDSs that could result in an *overall cluster development* rather than BDS that address specific needs of individual MSMEs within the cluster is a major challenge.
- Activities under this line item needs to be planned and implemented in a relatively short period of time and this is an additional challenge.